# MARKUP ON VIEWS AND ESTIMATES OF SBA BUDGET FOR FISCAL YEAR 2011

## HEARING

BEFORE THE

## COMMITTEE ON SMALL BUSINESS
## UNITED STATES
## HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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## OPENING STATEMENTS

# FULL COMMITTEE MARKUP ON VIEWS AND ESTIMATES OF SBA BUDGET FOR FISCAL YEAR 2011

**Thursday, March 4, 2010**

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
*Washington, DC.*

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia Velázquez [chairman of the Committee] presiding.

Present: Representatives Velázquez, Moore, Schrader, Clarke, Bright, Halvorson, Graves, Westmoreland, Luetkemeyer and Thompson.

Chairwoman VELÁZQUEZ. I am pleased to call this morning's mark-up to order.

Today the Committee meets to consider its views and estimates of the Small Business Administration's Fiscal Year 2011 budget. This discussion comes at a time when the economy is beginning to turn a corner. Most Americans, including the President, are looking to entrepreneurs to maintain that momentum. By providing robust funding for small business programs, we can further that progress and keep our recovery strong.

Needless to say, I was pleased to see President Obama boost funding for the SBA. However, I have concerns about how that money will be spent. As of now, 89 percent of SBA's new resources will go to unauthorized programs and agency overhead. This leaves a mere 2.6 percent increase for core programs.

It is my hope that through the adoption of these views, we can change that trend and redirect funds to the programs that entrepreneurs have always relied on.

Just as the downturn has forced small firms to make smart choices, SBA should do the same. That means spending widely and investing strategically. This is why we need to support programs like the new markets venture capital, which is making the government money. Even amidst the worst investment climate in decades, that initiative which receives no funding in this budget has managed to generate revenue for the Treasury, helping reduce deficits.

But rather than providing any resources to NMBC, this proposal instead invests in riskier ventures, like SBA Express, which could cost taxpayers as much as $128 million FY 2011.

More than anyone, small business owners understand the importance of fiscal restraint. The reviews before us take a page from those entrepreneurs and do more than simply increase spending. On the contrary, they offset new investment by cutting unnecessary costs and terminating six under performing programs.

Entrepreneurial development programs have a track record of solid returns. In fact, every one dollar spent on these efforts puts another $2.87 back into the Treasury. Most of these programs, such as Small Business Development Centers are catalysts for job creation. Unfortunately, the FY 2011 budget will flat fund virtually all of them. It, instead, invests in proven efforts like the Emerging Leaders Program, which does essentially the same thing as SBDCs, only at twice the cost. The end result is spending $6,000 on each job created when we could do the same and spend only $3,000.

Everyone agrees we need to get capital flowing to small businesses. In doing so, it is important for the lending process to be as accessible as possible. While it is never a good thing to increase costs on small business loans, this is particular true during an economic downturn. So the agency's proposed increase in lending fees is ill-timed, to say the least.

In the last two years, we have seen considerable declines in private industry. The one sector that has grown is the federal marketplace. Between the years 2000 and 2008, it was than doubled in size. Historically, the SBA's contracting programs have helped business tap the expanding world of opportunity. However, following a recent wage of fraud, not all of these programs are running at full capacity.

The Committee is well aware of this problem and is making fraud protection a top priority. However, the $2 million that this budget suggests for fraud control will not even put a dent in the $500 million in HUBZone and veteran disabled fraud the GA0 has uncovered, let alone waste that hasn't been identified.

In these views, we provide the agency with a blueprint for fighting fraud. That plan will insure only honest entrepreneurs, not large corporations, receive small business contracts.

After eight years of neglect, it is time to rebuild the SBA, and the overall funding level proposed in the President's budget is a welcome sign. But the agency needs to be judicious in its spending. These views give the SBA the direction and support it needs to make sound investments and promote its core mission, strengthening our nation's small businesses.

I now will yield to Mr. Graves for any comments that he may have.

Mr. GRAVES. Thank you, Madam Chair, and I want to thank you for holding this mark-up today on the Committee's views and estimates of the President's proposed SBAbudget for fiscal year 2011.

The President has repeatedly stated that small businesses will lead our economic recovery. Yet the Committee continues to hear reports that small businesses are unable to access capital, have difficulty obtaining federal government contracts and are hamstrung by ever increasing regulatory burdens. Small Businesses simply cannot thrive under these conditions. The soaring federal deficits are piling up as a result of Washington's spending addiction further impeding economic growth in America.

Unsustainable deficits can result in higher interest rates that hit small businesses especially hard. As a result, the businesses must devote more of their cash flow to larger interest payments, making it less likely that they will have the resources to hire employees or expand their operations.

Additionally the continued uncertainty about the future of far reaching legislation, such as health care reform and the proposed national energy taxes, all but have frozen business expansion and job creation nationwide. Until entrepreneurs can get an accurate idea of the new government regulations that lay ahead, they are unlikely to invest in expanding their enterprises.

In an effort to incentivize small business lending, the administration has proposed reallocating $30 billion in return TARP funds to establish a new small business lending fund. Given our responsibility and legislative mandate under House rules, the House Small Business Committee has an obligation to hear directly from Treasury Secretary Geithner about this proposal as he is the primary proponent and likely overseer of this new small business lending facility. Secretary Geithner must share with us the plans for the execution and the expected results of this fund before it is established.

With respect to the SBA budget, I am particularly concerned about the lack of resources that will be devoted to increasing procurement opportunities for small businesses.

I recently introduced the Helping Small Businesses Compete Act, a bill designed to improve the ability of small businesses to obtain federal government contracts. It is imperative that the SBA find ways within current resources to increase the number of trained personnel that can find and review federal procurement opportunities for small business owners. I certainly respect some of the Chairwoman's well founded criticisms of the budget, but I simply cannot concur with the proposed budget views and estimates, and I will be filing a separate set of views and estimates with the Budget committee.

And with that I will yield back.

Chairwoman VELÁZQUEZ. Are there any other members who wish to be recognized on the views and estimates?

[No response.]

Chairwoman VELÁZQUEZ. Well, the Committee now moves the consideration of the views and estimates of the Small Business Administration FY 2011 budget. The Clerk will report the title of the document.

The CLERK. The views and estimates for the Small Business Administration's budget for Fiscal Year 2011.

Chairwoman VELÁZQUEZ. I ask unanimous consent that the views and estimates document in its entirety be open for amendments at this time. Does any member seek recognition for the purpose of offering an amendment?

[No response.]

Chairwoman VELÁZQUEZ. Seeing none, the question is on agreeing to the views and estimates. A those in favor say aye.

[Chorus of ayes.]

Chairwoman VELÁZQUEZ. All those opposed, no.

[Chorus of nays.]

Chairwoman VELÁZQUEZ. The ayes have it, and the views and estimates are agreed to.

At this point I would like to yield to Mr. Graves for an unanimous consent request.

Mr. GRAVES. I would request unanimous consent to file my views on the budget estimate.

Chairwoman VELÁZQUEZ. Without objection, so ordered.

I ask unanimous consent that the Committee be authorized to correct punctuation and to make other necessary technical corrections on the document considered today. Without objection, so ordered.

This mark-up is now adjourned.

[Whereupon, at 10:14 a.m., the Committee meeting was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

SAM GRAVES, MISSOURI
RANKING MEMBER

# Congress of the United States
## U.S. House of Representatives
## Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6515

March 4, 2010

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Spratt:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), I am writing to advise you of the views and estimates of the Committee on Small Business with regard to the fiscal year (FY) 2011 budget. In addition, this letter contains the Committee's recommendations pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 for rooting out waste, fraud, and abuse, and improving governmental performance.[1]

The Committee on Small Business has legislative jurisdiction over the Small Business Administration (SBA) and this letter accordingly focuses on the fiscal year 2011 budget request for this agency and the program it operates under the authorizations contained in the Small Business Act (15 U.S.C. 631 et seq.) and the Small Business Investment Act (15 U.S.C. 661 et seq.). These programs are included in the 370 Commerce and Housing Credit budget account.

**FY 2011 SBA BUDGET OVERVIEW**

On February 1, 2010, the SBA submitted its FY 2011 funding request. Through its budget, the agency has outlined its funding proposals for its core programs, ongoing operating expenses, continuing agency modernization efforts and assistance for small businesses impacted by disasters. The Administration's SBA budget proposes to fund the agency with $994 million, which is 20 percent higher when compared to the FY 2010 request. However, when volatile disaster program and congressional initiative funding is excluded, the overall funding is $791 million, which is a 15 percent increase ($104 million) over FY 2010 ($687 million). Core agency funding (salaries and expenses/operating budget), excluding congressional initiatives, increased to $625 million in FY 2011 from $609 million in FY 2010. This is an actual 2.6 percent increase

[1] Committee recommendations that will limit waste, fraud, and abuse, and improve governmental performance are footnoted in this letter

in core programs. In addition, office operating costs increased to $121 million in FY 2011, from $104 million in FY 2010, an increase of 16 percent. This $17 million increase in office operating costs represents 89 percent of the overall budget increase, when excluding disaster funding, 7(a) credit subsidy expenses and congressional initiatives.

The request for non-credit programs is $174 million, a decrease of $11 million from FY 2010, due mainly to a reduction in Microloan Technical Assistance and PRIME funding. However, out of the 11 non-credit programs, only the National Women's Business Council and Drug-Free Workplace are given increases, while the Small Business Development Center (SBDC) and Women's Business Center (WBC) programs are flat funded.

Agency office operating costs are increased to $121 million in FY 2011, from $104 million in FY 2010, an increase of 16 percent. The Executive Direction budget request is $33.6 million, an increase of 30 percent and more than twice the level it was in FY 2009. SBA requests $18.4 million, an increase of $6.7 million from FY 2010, for the Loan Management and Accounting System modernization project. This project has been on-going since FY 2006. In the *American Recovery and Reinvestment Act of 2009* (ARRA), SBA received an additional $25 million for operating costs (salaries and expenses) and an additional $20 million for the Loan Management and Accounting System.

Within its budget submission, the SBA makes several legislative and administrative proposals. This includes the establishment of several new entrepreneurial development initiatives, which are expensive, duplicative, and untested. In addition, key changes are proposed to the SBA's lending programs that could result in costs being shifted to small business owners. As a result, the Committee has significant concerns about these budgetary schemes.

**LENDING AND INVESTMENT PROGRAMS**

Over the past year, a significant number of businesses have continued to struggle with inadequate access to capital – a lingering effect of the widespread credit crunch that brought about the recession. After nearly a decade of administration policies that focused on accommodating SBA's network of lenders to the detriment small business borrowers, the SBA's primary lending programs, the 7(a) and 504/CDC loan programs, have been unable to fill the credit gap. This has left thousands of small businesses without access to affordable credit at precisely the time when it is needed most. The Administration's FY 2011 budget would not only continue the policies that have proven disastrous to the capital access mission, but would also supplement them by providing unproven incentives for banks and lending intermediaries while imposing new costs on small businesses in need of capital.

While many small businesses have been unable to secure financing, the Committee does recognize the agency's contributions in implementing provisions under ARRA. These provisions contributed to a meaningful increase in SBA lending in which average weekly loan volume has grown by nearly 90 percent since February 2009. However, the agency must do more to close the persistent gaps in the commercial lending markets.

7(a) Loan Program

The Committee recommends the program level for the 7(a) program be set at $20 billion. With the potential for an economic recovery in FY 2011, a $20 billion program level should be sufficient to promote significant business expansion. The Committee is disappointed that the administration proposed to flat-fund the program, potentially limiting the role that the agency could play in an economic upturn next year.

In FY 2009, the total number of loans made through the 7(a) program fell by over 28,000 loans compared to the previous year, representing a 35 percent decline. Similarly, the total dollars lent through the program in FY 2009 fell by over $3 billion compared to the prior year, representing a 27 percent decline. These trends came on top of similar declines in FY 2008, as the number of loans fell by over 29 percent compared to FY 2007, and total funds loaned fell by over $1.6 billion. This represented the largest two-year decline in the history of the program, with over 50,000 fewer loans being made and nearly $7.5 billion less in lending — a level not seen in nearly a decade. These declines came in spite of significant Congressional efforts to shore-up the program by increasing the maximum guaranty amount and waiving borrower fees under ARRA.

The decline in SBA lending was led in large part by an overreliance and subsequent collapse in delegated loan programs, particularly the SBA Express Loan subprogram. Since FY 2005, agency budget constraints and a lack of manpower have led to an over-emphasis on the SBA Express program. In FY 2009, 40 percent of all 7(a) loans were made through the SBA Express program. By virtue of their lower guaranty and fully delegated lending decision, however, the SBA Express loans are less effective at filling the gap in credit for businesses that cannot find credit elsewhere. Anecdotal evidence suggests that SBA Express loans go to businesses that would have received credit without the need for an SBA guaranty. These same factors, combined with poor oversight of SBA lenders, make SBA Express loans more prone to default, lower recoveries, and drives up subsidy costs for the 7(a) program as a whole.

Increasing costs stemming from rising defaults and subsidy costs, particularly from SBA Express loans, have been the single largest driver of costs for the 7(a) program. The subsidy cost for SBA Express loans can be as much as three-and-a-half times more costly than regular 7(a) loans. To address these problems, the SBA FY 2011 budget requests an appropriation of $165 million to offset the positive subsidy in 7(a). It should be noted, however, that these rising defaults will also cause a $4.5 billion credit subsidy shortfall that will contribute to the national deficit in FY 2010.

Given the ongoing current credit conditions for small businesses, the Committee supports the administration's request for $165 million in appropriations for the 7(a) program in FY 2011. The program cannot function without this appropriation. It should be noted, however, that the need for this appropriation points to more fundamental problems in the 7(a) program and is not itself a remedy to these underlying issues. Consequently, the SBA must take immediate action to address the root causes of rising defaults and increasing program costs for borrowers.

As a result of the increasing defaults and higher subsidy costs attendant to SBA Express loans, the Committee recommends that SBA Express be discontinued.[2] Additionally, the Committee does not support using appropriations for the purpose of reducing the cost of loans made in the subprogram to zero and does not support increased guarantees, larger loans, or fee reduction initiatives for this subprogram. In lieu of SBA Express, the Committee recommends that the SBA focus on more targeted, cost-effective initiatives aimed at supporting increased lender participation while providing a robust source of capital for small firms that cannot acquire credit elsewhere.

Even with $165 million in appropriations for the 7(a) program, SBA estimates that the net average upfront loan fees paid by borrowers will increase by nearly 9 percent in FY 2011, meaning that on average, borrowers will pay $400 more in upfront fees compared to last year. With these measures, however, the administration's FY 2011 budget proposes legislation to provide SBA with additional authority to increase the fees in the program beyond their current maximums. The administration's request suggests that this is premised upon the need to offset the $4.5 billion in upward credit subsidy reestimates.

The Committee is strongly opposed to the administration's proposal to provide SBA with authority to increase fees beyond current maximums. This proposal is not only inequitable for small businesses, but also ineffective to address the anticipated $4.5 billion upward credit subsidy reestimate that the administration is ostensibly attempting to address. Already, fees on the largest loans can exceed $50,000 and the FY 2011 budget does not propose to extend or otherwise make limited fee relief similar to what was originally put in place under ARRA. As a result, the proposals would essentially cause a "double-jump" in fees, as ARRA fee waivers expire and SBA imposes higher fees on borrowers. Additionally, raising fees on new loans would have no effect on the rising costs from loans made in prior years and would not achieve the intended result of reducing the upward subsidy reestimates that are attributable to loans made in prior years. By trying to change policies in order to recoup prior years' costs, the administration is taking action that is inconsistent with the principles underpinning the Federal Credit Reform Act.

The SBA is also proposing to increase the maximum loan size to $5 million, even though these larger loan sizes are readily available through the 504/CDC and the Small Business Investment Company (SBIC) programs. This proposal is not only unnecessary, but would negatively affect the program by aggravating existing problems. As an initial consideration, under the existing fee structure for 7(a) loans, borrowers seeking loans in the larger $5 million range would pay over $91,000 in upfront fees, making them far more costly than most small businesses could afford. This supports projections based upon the SBA's historical distribution of loans which suggest that fewer than 50 loans in the larger $5 million range would be made per year.

Despite the small number of businesses that would benefit from larger loans, however, such an increase would likely drive-up the cost of loans for the majority of borrowers who seek small or medium size loans because larger loans have higher default rates than small and medium size loans. For this reason above all, the Committee does not support

[2] Committee recommendation #1 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

the Administration's proposal to increase the size of 7(a) loans beyond the current maximums: Such a change would only serve to benefit lenders and a handful of potential borrowers while the majority of borrowers and taxpayers are left to deal with higher program costs.

Proponents for larger limits on SBA Express loans have suggested that the higher default rate that Express loans currently suffer would be a non-factor if maximum Express loan limits were increased because the number of Express loan defaults is negatively correlated with loan size. This assumption is erroneous for two reasons. First, it must be noted that the higher default rate in SBA Express is endemic to the program. It does not stem from the size of the loan, but rather is an outgrowth of program's delegated lending authority that is exacerbated by a lack of oversight from the SBA. Thus, part of the reason that there are fewer loan defaults among larger Express loans (i.e. those between $100,000 and $150,000) is simply because the program's activity is heavily concentrated in smaller loans. Since 2005, lenders have made slightly fewer than 21,000 loans in an amount over $100,000. By contrast, there were over 195,000 loans in an amount under $100,000 in this same period. If the program's emphasis were shifted to make more loans in larger amounts, one could reasonably expect to see more defaults in loans of larger size.

It should also be noted that the assumption that larger Express loans will default at lower rates is incorrectly premised upon a linear projection of defaults that occur in the program. If this projection were extended beyond the current Express loan limit, one would expect to see no defaults in loans over $500,000. Clearly this is not correct, because there should always be an expectation of defaults regardless of loan size. A more appropriate mathematical projection based upon the historical performance of loans in the program would indicate Express loan defaults of around 10 percent among loans in the proposed $1 million range. This would be higher than the historical five year average of conventional 7(a) loans of similar size, which is slightly more than 6.5 percent.

In lieu of the proposals that the administration has put forth, the Committee believes the SBA should allocate new resources to improve lender oversight and manage the increasing costs of the program. Along with these efforts, however, the Committee recommends that the SBA pursue initiatives that are more focused on the needs of small businesses. Over the course of the last four years, the SBA has rolled out several lending pilot programs that have had little to no significant benefits for small firms. The Committee believes that these initiatives have proven of little value and should be discontinued.

The current administration has also done nothing to implement the initiatives contained in P.L. 110-140, the Energy Independence and Security Act of 2007. The Energy Saving (ES) Loan program established in this bill would function similar to the Increased Veteran Participation loan program (established under P.L. 110-186) and would provide meaningful benefits for small businesses taking loans to improve their energy efficiency. Like the IVP program, ES loans could operate within the existing zero-subsidy policy of the 7(a) program. While no appropriation is necessary to implement either of these programs, the Committee supports additional funds being provided for the agency to immediately take action to implement these initiatives.

Additionally, the Committee recommends that sufficient resources be made available to fully implement and maintain the increased guarantees and fee reductions contained in P.L. 111-5 and extended through FY 2011 by provisions contained in H.R. 3854, the Small Business Financing and Investment Act. It is the Committee's recommendation, however, that any funds made available for these purposes be applied only to reduce borrower fees, as the SBA is projecting an increase in the net average borrower fees in FY 2011.

504 Certified Development Company Program

For FY 2011, the Committee recommends that the 504 program level be set at $7.5 billion. With the program's current pace of lending, this should be more than adequate to sustain increased lending activity that may result from an economic recovery. In FY 2009, the 504 program made a total of 6,608 financings in a total amount of $3.83 billion. This represented a 27 percent decrease in the amount of dollars provided over FY 2008 and a 25 percent decrease in the number of financings over the year prior. These declines came on top of the 17 percent declines in both dollar amount and number of financings made from FY 2008 to FY 2009.

While the program remains at a zero subsidy rate, rising defaults in the program threaten to make loans prohibitively expensive. This consideration is heightened by the fact that the 504/CDC program contains significant exposure to the highly-volatile commercial real estate (CRE) market. Already, increasing trouble in CRE has pushed up the program default rate by 2.72 percent compared to the previous year to a total of 10.06 percent. At the same time, the SBA's ability to recover on defaulted loans will decrease by 2.65 percent. Furthermore, delinquencies on commercial mortgage backed securities (CMBS) are expected to steadily increase from the current level of about 4 percent, hitting a peak in late 2012 at 12 percent. This means that rising costs are coming as the result of more bad loans and a simultaneous inability of the SBA to liquidate and collect collateral on defaulted loans.

These conditions are potentially disastrous for the 504/CDC program. The Committee recommends that the SBA immediately take action to stem its existing exposure to the CRE market and heighten its lender oversight for loan the 504 loan program. The Committee also recommends that the agency take additional steps to improve its liquidation and recovery efforts. The Committee is deeply troubled, therefore, that the Administration has proposed to permit the widespread refinancing of CRE into the 504/CDC program in an effort to limit private sector losses in this sector as conditions deteriorate. The Committee strongly opposes this initiative.

As an initial consideration, the Committee does not believe that the wholesale refinancing of CRE is consistent with the basic policy underpinning the 504/CDC program. Since its inception, the 504/CDC program has been singularly focused on creating jobs and fostering economic development. Instead of creating jobs and fostering new economic development, however, the Administration's proposal would shift the risk of losses on CRE from private sector lenders to taxpayers, since CDC loans are fully backed by the SBA. Additionally, there is a significant risk that subprime CRE loans will be adversely selected for refinancing into the 504/CDC program because prime debt is not likely to need restructuring with a government guaranty. This risk is only compounded by the fact that CDCs will generate fee income for the loans that they refinance, giving them an incentive that was not unlike the compensation structure for mortgage brokers, which contributed to the collapse of the residential mortgage market.

It is worth noting that in ARRA, Congress already passed a provision that would permit a limited amount of project-related debt refinancing in the 504/CDC program. However, safeguards were included that would prevent the transfer of substantial private sector risks to the government.

Instead of injecting new risk into the 504/CDC program, the Committee recommends that sufficient resources be made available to provide 504 Loan Servicing Centers with sufficient staff to handle the defaults that are projected to increase in FY 2011. The Committee further recommends that the SBA implement a comprehensive lender oversight and risk management system for the 504/CDC program. Consistent with the regulatory framework for other financial institutions, however, the Committee recommends that the cost of these efforts be assessed to lenders in the program and that no funds be appropriated for this purpose.

For FY 2011, the Committee expects the SBA to fully implement the energy saving debenture program enacted under PL 110-140, the Energy Independence and Security Act of 2007, which will expand the 504/CDC program to accommodate financing for projects that improve energy efficiency. While no appropriation is necessary for this purpose, the Committee supports making additional funds available so the agency may immediately take action to implement this program.

7(m) Microloan Program

In FY 2009, the program provided 2,758 loans in a total about of $30 million. This represents a nominal decrease in the number of loans made in FY 2008. Thus, despite SBA's own work to increase the number of intermediaries and program, growth in the Microloan program remains flat.

For FY 2011, SBA estimates an increase of 37 basis point in the net borrower interest rate for FY 2011, which will likely be passed on to borrowers. The subsidy rate for the program will also increase by nearly 3 percent and is directly attributable to this anticipated increase in interest rates. Perhaps most troubling, however, is the fact that SBA has proposed a cut to microloan technical assistance by over 50 percent compared to the previous year, from $22 million to $10 million. Without sufficient funding for technical assistance, the agency will be unable to make associated Microloans, as the program requires technical assistance to be delivered in conjunction with the loan. Additionally, the SBA has also proposed moving the PRIME technical assistance program under the purview of the microloan program and cutting its budget by half, to $3.4 million.

In FY 2011, the Committee supports the Administration's requested $3.8 million appropriation for the Microloan program, which should be sufficient to support $25 million in lending, but the Committee recommends funding for technical assistance for 7(m) at $25 million. These figures should be sufficient to support new entrepreneurs that will likely seek capital during the economic recovery and provide sufficient TA funding for the increased number of intermediaries that have recently joined the program.

Small Business Investment Company Program

In FY 2009, the SBIC Program provided 2,487 financings in a total amount of $1.69 billion. This actually represented a significant decrease of 21 percent in number of financings and almost 26 percent in total dollars financed compared to the previous fiscal year. This leverage was split between the two aspects of the program, with about a third of all financings being made through the Participating Securities (PS) program.

Despite efforts to improve utilization in the SBIC program, the SBA continues to seriously lag in its ability to attract new licensees to the program, even as the number of existing participants dwindles. Despite the agency's renewed focus on increasing the number of new licensees, the SBA only issued five more licenses in FY 2009 compared to 2008 (for a total of 11 new licensees). Without an increased emphasis on attracting or retaining licensees in the program, however, there will likely be continued declines in the number of financings through the program, as was seen in FY 2009.

Additionally, for FY 2011, the Administration has again requested no funding for the PS program and has not proposed a replacement for this program. It should be noted, however, that the PS program accounted for nearly a third of all financing that was made under the program last year. As the remaining PS funds exhaust their leverage and wind-down their investments, the SBA will face a significant gap in its ability to deliver investment to small businesses, particularly for early-stage and capital-intensive small businesses, which are primarily served by the PS program. According to SBA studies, the total unmet need for early-stage equity financing for small businesses is about $60 billion annually. The elimination of the PS program will only serve to increase this gap.

The Committee recommends that the SBIC Debenture program be authorized at $3 billion in FY 2011. Given that the over $2.2 billion in program authority went unused in FY 2009, this level of funding should be adequate to meet any new demand in the program that arises as startup investment expands in the wake of a potential economic recovery.

The Committee recommends that additional funding be provided to the SBA to support the creation of a new early-stage equity investing program similar to what the House has already passed in H.R. 3854, the Small Business Financing and Investment Act. Today, the SBA is entirely reliant on debt-based programs to overcome the difficulties that small firms encounter when seeking capital. These debt-based programs, however, are more suited to providing later stage, expansion capital to businesses with positive cash-flow that can be used to make regular payments on debt. As a result of the current economic environment, however, many entrepreneurs have been unwilling to take on new business enterprises, reasoning that opportunities for capital are scarce. Consequently, the gap for investment in early-stage and capital-intensive small businesses, which lack the resources to service heavy debt investment, has grown wider, and this critical component of the small business community has continued to be underserved by existing government programs. A new equity program focused on early-stage small businesses could help address these trends and restore the gap in the SBA's investment mission that was left with the decline of the PS portion of the SBIC program.

Finally, the Committee expects the SBA to fully implement the energy saving debentures and increased leverage limits enacted under PL 110-140, the Energy Independence and Security Act of 2007, which expand the SBIC program financings for projects that improve energy efficiency. While no appropriation is necessary for this purpose, the Committee supports making additional funds available so the agency may immediately take action to implement these initiatives.

New Markets Venture Capital Program

Beginning in 2003, no funding was allocated for the NMVC program. As a result, the SBA has been unable to bring new NMVC companies into the program, limiting the availability of equity financing to entrepreneurs located in low-income areas. To date, only six NMVC companies are participating in the program. Additional funding is crucial, however, to ensuring that the NMVC program meets its full potential to improve economic development in low income communities, particularly in communities that have experienced a loss of their small manufacturing and industrial economic base.

For FY 2011, the Administration has adopted a "wait and see" approach in lieu of providing additional support for the program. In FY 2010, however, the NMVC program continued its trend of a downward credit subsidy reestimate. With only two years of funding in a total amount of $70 million, the NMVC program is currently projected to return nearly $2 million to the Treasury that will reduce the federal deficit. This $2 million downward credit subsidy reestimate comes amidst the worst recession since the Great Depression and stands in stark contrast to the $4.5 billion upward reestimate that the SBA's other credit programs will cause in FY 2010.

The Committee believes that the SBA should provide more support for programs like the NMVC program, which has proven itself as a cost-effective means of delivering capital to the small businesses that need it most. For this program to realize its full potential, the Committee recommends sufficient follow-on funding to guaranty $100 million in debentures under the NMVC program and provide $20 million in operational assistance grants. Additionally, the Committee supports additional funding to license new NMVCCs for the program. The consistent downward credit subsidy reestimates for the program portends significant and cost effective benefits from the program to justify additional support for the program.

Renewable Fuels Capital Investment Company Program

The Renewable Fuel Capital Investment (RFCI) program was established in December of 2007 under PL 110-140. The program authorized the creation of specialized Renewable Fuel Capital Investment Companies (RFCIC) to issue SBA guaranteed debentures to invest in small businesses engaged in researching, manufacturing, developing, and bringing to market renewable energy sources. This initiative represents a cost-effective way of spurring innovation and development of technologies in the small business community to improve the nation's energy independence.

To date, however, SBA has taken no action to implement the RFCI program. Under the existing statutory framework of the program, no appropriation is necessary to implement the RFCIC program. Nevertheless, the Committee believes that $30 million should be appropriated for the purpose of reducing or eliminating fees associated with debentures issued under the program and that the program level be set at $1 billion for FY 2011. Additionally, $30 million should be used to implement the operational assistance grants to RFCICs. Such venture investments create jobs and are a sound investment to help the nation become a leader in these new technologies.

Disaster Assistance Program

Following the disastrous agency response to Hurricane Katrina and the 2005 Gulf Coast Hurricanes, the SBA was charged with making significant reforms to its Disaster Assistance program. Over four years since the disasters, however, doubts remain as to whether the agency has corrected the deficiencies that led to failures in 2005. In recent hearings before the Committee, the Government Accountability Office (GAO) has said that it does not believe that the SBA is prepared to respond to another major disaster. The Committee therefore recommends that sufficient additional resources be appropriated to fully implement the simulations, catastrophe modeling, workforce and logistical improvements that were required under P.L. 110-234, the Food and Energy Security Act of 2007.

Unlike other disaster management agencies, the SBA does not build a contingency fund to respond in the event of major disasters. Instead, the agency will rely upon ad hoc appropriation requests, which could be delayed in the event of a disruption that affects the legislative process. For this reason, the Committee recommends that $250 million be appropriated in FY 2011 for the purpose of building a contingency fund that could be drawn upon in the event of a catastrophic disaster.

The Committee supports the SBA request for $145 million for the loan-making function in FY 2011. This would be sufficient to support approximately $1.1 billion in loan making. The Committee also recommends that $203 million be appropriated for the disaster loan administrative function commensurate to support this level of loan making.

SBA is not proposing to support the short-term bridge financing business loan programs that were established under P.L. 110-234 in FY 2011. These initiatives would have permitted the SBA to make up to $150,000 at not more then 1 percent over the prime rate to businesses affected by a catastrophic disaster and make loans of up to $25,000 immediately following other disasters. These bridge loans would get financial assistance to businesses while they await processing or disbursement of their conventional SBA loan or insurance payments, which was a significant and widespread problem revealed by the agency's botched response following the 2005 Gulf Coast Hurricanes. Consequently, the Committee recommends that $1.5 million be appropriated for these programs in FY 2011. At their current subsidy rates, which are significantly lower than those for conventional disaster loans, this appropriation will support $50 million in critical short-term loans in each program.

New Proposal for a Small Business Lending Fund

In late January 2010, the Administration and Treasury Department proposed that Congress pass legislation to reallocate $30 billion of funds originally appropriated under the Emergency Economic Stabilization Act (EESA) and the Troubled Asset Relief Program (TARP) for the purpose of establishing a new Small Business Lending Fund (the "Fund") to be administered by the Treasury. The Fund would be intended to support small business lending through community banks by providing banks with incentives in the form of discounted capital funding if they increase lending to small businesses.

The Treasury proposal is premised upon the same policies that contributed to the current credit crunch by putting the welfare of financial institutions before the needs of small businesses. It will provide financial incentives to banks in the form of discounted capital with the hope that these benefits "trickle-down" to small businesses. Furthermore, there are no strict requirements attached to the Fund capital and no penalty if the banks fail to use the Fund money for small business lending. In this sense, it is all "carrot" and no "stick," which would do nothing to curb banks natural inclination to make loans that are the most profitable and that would have been made even without the Treasury funding. Finally, under the Treasury proposal, banks would still be ultimate arbiters of which businesses get loans and which do not. Businesses would have no alternative if lenders do not participate in the program or if they continue to cherry-pick the best loans.

Small businesses that are currently outside banks' own credit standards will not be better off if the Treasury proposal becomes law. In consideration of these risks, the Committee does not support the proposal to reallocate $30 billion of TARP funds with no obligation that banks make this funding available for small businesses. Additionally, the Committee is troubled by the fact that this proposal will deliver incentives to banks with no restrictions on how lenders may profiteer from the businesses they are ostensibly intended to serve. Instead, the Committee encourages the administration to develop a program that stands a better likelihood to provide capital and interest incentives directly to small businesses without the continued reliance upon banks as intermediaries.

Finally, it should be noted that the Treasury's $15 billion initiative to purchase pools of SBA securities failed in achieving its goal, raising questions about whether the Treasury is the appropriate agency to carry out such small business initiatives.

**ENTREPRENEURIAL DEVELOPMENT PROGRAMS**

The Committee recommends full funding at the statutorily-authorized levels for the agency's business development programs. Funding these programs at their capacity will establish critical levels of resources available for assisting entrepreneurs adjust to the current challenging business climate and remain key engines of economic growth. In contrast to the Administration's FY 2011 budget proposal to freeze the agency's core entrepreneurial development programs while creating new high-cost targeted initiatives, the Committee recommends supporting the existing network of community facilities to ensure fair access to these services for entrepreneurs across the nation.

Small Business Development Centers (SBDCs)

The Administration's request of $113 million for the SBDC program is not sufficient to meet the needs of small business. This request is the same as the funding level for FY 2010. The Committee believes that this program should be funded at the authorized level of $135 million. This amount will ensure SBDCs have adequate capacity to address increased demand for entrepreneurial development assistance, particularly in the form of self-employment and business stabilization tools due to challenging conditions in the economy. In addition, the Committee requests $5 million for the SBDC initiative contained in P.L. 110-140, the Energy Independence and Security Act of 2007, and $5 million for the SBDC initiative contained P.L. 110-186, the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008. These programs will provide veteran entrepreneurs, and small businesses seeking to become more energy efficient with the assistance and technical advice they need. The Committee also requests $10 million for SBDC state and regional directors to create and implement a nationwide program to aid small businesses access new capital resources and tax incentives established through stimulus initiatives.

The administration's proposal to freeze spending for the SBDC program at the FY 2010 funding level of $113 million would exacerbate the already stressed conditions of the community-based network that entrepreneurs use to access counseling and training. An additional investment of $23 million in the program to the authorized level of $135 million would create almost 12,000 more jobs. In addition, the Administration proposes to waive section 7(e) of the Small Business Act which would effectively eliminate the SBDC program's statutorily mandated funding formula. That formula requires federal resources to be allocated to the SBDC network through a population-based formula grounded in Census data. The proposed change would allow the agency broad, subjective discretion in granting awards. This would discard a formula which has worked well for years and has been updated to ensure fair treatment of states with smaller populations. The Committee strongly opposes any shift from the current law as it ensures fair distribution of resources based on clear data (the Census) and a completely transparent decision making process.

Women's Business Centers

The Committee believes that the Administration's request of $14 million for the Women's Business Center program is inadequate. This is the same level this initiative was funded at in FY 2010. Instead, this program should be funded at its authorized level of $17.5 million. This amount can be used to open centers and provide greater support for existing centers. Given the critical role women entrepreneurs serve in economic growth, contributing nearly $3 trillion to the national economy and creating or maintaining 23 million jobs, this program is a vital investment in the country's recovery.

SCORE

The administration requests $7 million for the SCORE program, which is the fully authorized level. This level of funding is appropriate and will ensure continued resources for the agency's business mentoring services, which are critical for entrepreneurs adjusting to challenging economic conditions.

Emerging Leaders Initiative

While the goals of this program are justifiable, the Committee is concerned about the effectiveness and efficiency of the initiative due to its program design and past performance. As a pilot program, the initiative failed to demonstrate the capacity to generate a significant economic impact despite the large share of resources allocated to it. This program only created 132 jobs at a cost of $800,000, for a per job cost of $6,000. This amount is almost twice as much as the job creation cost of the SBDC program, which costs $3,500 to create one job.

The Committee also believes the program is duplicative of SBA's existing network of SBA's entrepreneurial development providers. Given the available network of local SBA facilities, such as SBDCs, WBCs, SCORE chapters, and District Offices, the program's purpose overlaps with these ED services. ED infrastructure is located in all urban areas as well as in many Native American communities, which are currently responsible for providing services to the businesses also targeted by the initiative. Although the program was designed with the intention of closing gaps in services for communities in need, it will shift resources from capable existing centers that merely require adequate funds to provide the necessary assistance. Further, the initiative lacks effective mechanisms to ensure local ED facilities can collaborate on providing these targeted services and follow up with clients in their communities. Consequently, the network's effective operations are obstructed and support to these businesses is not necessarily consistent.

Therefore, instead of expanding the program to $3 million, which was proposed by the Administration in the FY 2011 budget, the Committee requests that funding for this program be terminated.[3] Resources should instead be targeted to fill gaps in communities' needs through the agency's current ED infrastructure network.

Regional Innovation Clusters

The federal government can serve a critical role in promoting regional initiatives to develop industry clusters, thereby supporting sustainable local economies that contribute to national growth. However, the Committee has major concerns over the design of the regional cluster program proposed in the Administration's FY 2011 budget and related funding request of $11 million, which would make this initiative the third largest SBA entrepreneurial development program.

Although the initiative's goal is to target significant resources in the form of intensive training and expertise to regional industry clusters, the institutional framework to

[3] Committee recommendation #2 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

implement the proposal has not been clearly established. Plans for the allocation of resources, partnership agreements among local, private, and federal service providers in the targeted areas, and decision-making coordination remain unclear. Therefore, the program lacks a specific implementation strategy, providing minimal opportunity to ensure federal oversight in the allocation of resources and performance of services.

Designed to target resources and assistance to a select few communities, the initiative also limits ED assistance and forces the agency to play a significant role in creating winners and losers for certain businesses and industries. Currently, SBA's portfolio of ED programs is structured to provide generalized assistance to a broad expanse of communities, thereby promoting affordable access to business assistance resources. Yet, by targeting resources, the proposal will help a limited number of entrepreneurs and communities become competitive and will exacerbate competitiveness disadvantages for those that lack the tools to develop strong enterprises and economies. Further, as the program lacks adequate methods to ensure that resources for the initiative are fairly distributed, there is significant concern over abuse of these funds.

Given the program design flaws and divergence with the agency's core ED program goals, the significant budgetary request by the Administration is inappropriate. As a result, the Committee recommends that this proposal be rejected.[4]

Office of Veterans Business Development

The Committee supports the Administration's request for the SBA's Office of Veterans Business Development (OVBD) of $2.5 million. This would ensure the agency has the resources to continue customizing services to meet the needs of current veteran entrepreneurs.

Full funding of the agency's OVBD will ensure the implementation of its statutory mandate contained in P.L. 110-186, the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008. This includes implementing new veteran-based initiatives, the expansion of veteran assistance outreach facilities in communities across the country, and customizing resources to meet the needs of women and disabled veterans.

In addition, the Committee requests $10 million in additional funding for a Veterans Business Center program that the Committee plans to authorize during the year. This program will modernize and streamline the federal government's core veterans' entrepreneurial development training initiative, and provide returning servicemen and women with the tools they need to start a business.

National Veterans Business Development Corporation

This Corporation was created to provide training and entrepreneurial development services to veterans. Unfortunately, it has not reached its full potential and the American Legion and Veterans of Foreign Wars have called for its termination. The Committee

[4] Committee recommendation #3 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

concurs with this viewpoint and recommends that the funding for the Corporation be terminated for fiscal year 2011, which is in concert with the Administration's FY 2011 budget proposal.[5] Given concerns that the organization is insufficiently fulfilling its purpose to provide comprehensive assistance to separating members of the nation's military forces, the Committee is proposing improved alternatives – including the Veterans Business Center program discussed in the section above – to deliver these services.

The Committee's commitment to promoting veteran entrepreneurship remains strong. Therefore, it is critical that assistance programs to the sector are effective and that veterans have access to these resources so they can establish successful enterprises in all stages of the economy.

National Women's Business Council

To eliminate any potential duplication of the Council's efforts with the research conducted by SBA's Office of Advocacy, the Committee is working to reform the organization's mandate. Until this process is completed, the Committee recommends that the program be funded at $1 million with increased oversight of its work. Given that there has been no clear rationale to nearly double the Council's funding to $1.9 million, as proposed by the Administration in the FY 2011 budget, the Committee requests no increases at this time.

Drug Free Workplace Program

The Drug-Free Workplace program was originally created to assist small firms in the implementation of a plethora of substance abuse counseling and training activities.[6] This included creating workplace drug policies, drug prevention training and education seminars, providing for drug-testing, and counseling employees on substance abuse. Instead, the program has evolved into a subsidy solely for drug-testing centers, a private industry that does not warrant funding from the SBA, an agency whose mission is to promote and assist small businesses.

Given the financial challenges facing the government, the Committee does not believe it is prudent to use scarce taxpayer funds to purchase drug-testing services from and for viable private sector companies, despite the Administration's FY 2011 request to fund the program at $1.03 million. Such funds would be used to support the same companies through tax relief, loan guarantees, or reducing their regulatory burden. As a result, the Committee recommends termination of program funding due to the lack of meaningful returns on the public investment.[7]

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[5] Committee recommendation #4 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.
[6] See Section 27 of the Small Business Act (15 U.S.C. 654).
[7] Committee recommendation #5 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

Office of Native American Affairs

Given the significant impacts of the declining economy in Native American communities and the concomitant rise in demand for business development services for these regions, the Committee recommends $6 million in funding for the SBA's Office of Native American Affairs (ONAA), which include funds for administration, outreach efforts, and grant awards for Tribal Business Information Centers.[8] In contrast, the Administration proposes to flat fund the program at $1.25 million in FY 2011. By increasing access to business development and the expansion of tools available through the agency's entrepreneurial development, lending, and procurement programs, adequate budget resources will help to spur growth in these communities. This level of funding will ensure an expansion of assistance to entrepreneurs in these regions in terms of access to customized services.

Office of International Trade

The Committee recommends funding the Office of International Trade at $6 million. The agency proposes to effectively level fund this office and its programs in FY 2011 at $5.2 million. Additional resources will ensure that entrepreneurs have access to tools for successful integration into global markets and to help offset declines in domestic consumption. The agency must increase its assistance to small businesses engaged in international trade to ensure their global competitiveness as the domestic economy falters, particularly through export financing and technical assistance. Specifically these resources can be used to provide needed additional U.S. Export Assistance Center experts to facilitate small businesses' overseas transactions and to expand the agency's international lending activities.

The utilization of resources for international trade assistance to small business must also become more transparent. Therefore, the Committee recommends that the agency re-establish a specific line item for the Office of International Trade rather than following the approach that folded the program into the operating budget. This will ensure that Congress can monitor the agency's contributions to promoting trade opportunities for small firms and, consequently, their efforts to create new economic opportunities for the country.

Export assistance programs are a critical investment in our nation's economic recovery. As a source of employment growth, each $1 billion in exports creates, on average, over 4,000 new high-pay, high-benefit jobs. As an economy engine, every $1 invested in these programs generates $500 in export sales. Therefore, as the nation pursues export-oriented economic growth, the Committee recommends that the agency increase its institutional focus to ensure that small firms can compete globally.

[8] The Committee also recommends prohibiting ONAA project budget resources to be utilized to implement the agency's proposed Emerging Leaders program, which occurred last year. The ONAA resources should instead be allocated solely to fulfill its purposes and any agency initiatives should be funded from specified program budgets.

## GOVERNMENT CONTRACTING PROGRAMS

The Committee has significant concerns about the ability of the SBA's contracting programs to fulfill their mission. During the last year, GAO has issued scathing reports about the SBA's administration of its major procurement authorities. These reports highlight the SBA's inability to conduct basic program monitoring tasks and devote sufficient resources to protect taxpayer funds. At the same time, the agency was ill-equipped to provide small firms with the assistance they needed to secure stimulus-related contracts under ARRA. This has resulted from a decade-long reduction in agency procurement professionals, which the current administration has continued. In light of these two developments, the Committee believes that the SBA is falling well short of its statutory obligations to small businesses seeking federal procurement assistance.

### Procurement Center Representatives (PCRs)

Due to P.L. 111-5, the American Recovery and Reinvestment Act of 2009, the PCR function is now more critical for small business contracting programs. The level of complaints received by the Committee about contract bundling, consolidations and expanded task orders has risen dramatically, closing small businesses out of an increasing number of contract opportunities. PCRs help break up agency preferences for creating huge contracts which are beyond the capacity of small businesses.

For FY 2011, the permanent number of PCRs should be expanded to 75. Sufficient travel funds should also be made available so that PCRs can monitor contracts that are regional or national in scope. For these purposes, the Committee recommends an appropriation of $8 million.

### Commercial Marketing Representatives (CMRs)

Commercial Marketing Representatives (CMRs) should be reviewing every major contract to ensure that opportunities are made available for small businesses. They also are supposed to ensure that subcontracting plans required by law are followed. A previous SBA Inspector General report showed that CMRs are able to only review a fraction of the contracts they should. History has shown that contract officers of the various agencies are not highly motivated to follow up and monitor prime contract performance on subcontract goals.

To address these deficiencies, the Committee recommends an appropriation of $5 million so that the SBA can employ a minimum of 40 CMRs. For FY 2011, CMRs should review contracts contained in P.L. 111-5, the American Recovery and Reinvestment Act of 2009 for small business opportunities.

### 8(a) Program

The Committee supports the total administrative funding level of $66.4 million requested by the SBA for the 8(a) program. This level of funding is a substantial increase for the second year in a row and will support the program's participants, address critical management functions and the increased operations of the field staff in support of these objectives. The program requires such support in the field to oversee the operation of the program and to provide more surveillance and assistance to an increased number of participants. By the end of FY 2010 and into FY 2011 the SBA will be putting in place a system for improved regulatory oversight for 8(a). Finally, for FY 2011, the SBA needs to make an effort to provide special assistance to identify and secure 8(a) contracts for work under ARRA which will be in its last year in FY 2011.

7(j) Program

The 7(j) program is vital to the operation of the 8(a) program particularly at a time when participation has increased dramatically and when 8(a) oversight and assistance from participating agencies is questionable. SBA has addressed problems with its 7(j) contractor selection and engaged a variety of contractors to cover different portions of the technical advice offerings. For FY 2011, the SBA has requested a funding level of $3.4 million for the 7(j) program, which is the same level as FY 2010, but $1 million above the FY 2009 level. The Committee supports the requested level of funding for the program particularly in view of the substantial changes in the regulatory structure of the program that will be implemented in late FY 2010 and FY 2011. This funding level also assures assistance to 8(a) participants that are participating in contracts under the American Recovery and Reinvestment Act (PL 111-5) programs.

HUBZone Program

As noted above, this program has had significant problems since its inception. In 2003 the SBA's Inspector General (IG) expressed concern about contracting fraud in the program. In 2006 an SBA IG audit of the HUBZone program found 56 percent of companies ineligible. Eighty percent of the companies approved for the program were found ineligible within three years; in other words, the longer businesses were involved in the program, the less likely they were to remain eligible. In 2008, the GAO found that ineligible businesses easily "qualified" to win contracts under the program and received more than $100 million in contracts at the expense of other qualified small businesses. In some cases, these businesses continued to receive HUBZone contracts even after SBA declared them ineligible due to a formal protest proceeding.

The Committee remains concerned that the program places taxpayer funds at substantial risk of fraud and abuse. It is particularly troubling that the evidence suggests mature HUBZone businesses become more adept at "gaming" the system and can ignore government determinations with impunity. GAO reports showed that agency contract officers have very little incentive to ascertain program compliance. To gain control of the program, SBA would have to substantially redeploy assets to perform additional certifications, verifications, and continuous monitoring. Although the SBA has promised a complete re-engineering of the program, 18 months after such promises, very little tangible evidence of improvement is available.

On January 1, 2010, a Committee audit revealed that ineligible companies were still deemed eligible for the HUBZone program. Unless the agency makes a more concerted effort to address the very serious problems plaguing this program and demonstrates tangible results, the Committee continues to believe that the program should be terminated.[9]

Service-Disabled Veteran-Owned Small Business Program

The GAO reviewed the program in 2009 for its potential for fraud and misrepresentation of eligibility to participate in the program. In the 10 test cases selected and studied, it was found that tens of millions of dollars of contracts were given to ineligible firms, including some that had been found ineligible in previous SBA challenges. The Committee is concerned that the SBA is not taking sufficient responsibility to oversee and manage this program, even though the statutory authority for this program is vested in the agency. To this point, SBA's budget proposal contains no specific plans or resources to make improvements to this initiative.

**OFFICE OF TECHNOLOGY**

The Committee supports the SBA's request for $2 million in new funds for SBA's portion of an interagency collaborative effort to improve the Small Business Innovation Research (SBIR) program. This would include improved data collection and outreach efforts as well as efforts to improve commercialization of award winning items. The budget should specify that a portion of this funding should include new funds allocated to the Office of Technology that operates the Rural Outreach and the Federal and State Partnership programs, which are essential to creating entrepreneurial opportunities in rural states. The office should be seeking out methods to increase the flow of capital to the types of high-growth, innovation-driven businesses that participate in the SBIR program.

Finally, the Committee is disappointed that the SBA has failed to promulgate regulations to permit venture capital-backed small businesses to be able to fully participate in the SBIR program. Without the participation of venture-backed companies, the SBIR program has become little more than corporate welfare for marginal companies who are unable to secure external market-based funding.

**OFFICE OF THE NATIONAL OMBUDSMAN**

The Office of the National Ombudsman provides a listening platform for small businesses. Through its system of Regional Regulatory Fairness Boards, it screens and pursues complaints about the regulatory process that impact the bottom line of small business owners. For FY 2011, the SBA, which appoints the head of this office, has requested a small increase in the office's funding level.

**OFFICE OF ADVOCACY**

Advocacy was established by Congress to provide an independent voice for small business in the formation of public policy across the entire federal government. Advocacy also has funds available for independent, external research that focuses on

[9] Committee recommendation #6 pursuant to section 321 of the fiscal year 2009 congressional budget, S. Con. Res. 70 to root out waste, fraud, and abuse, and improve governmental performance.

small business trends, characteristics, and contributions to the economy. The Committee remains concerned that the administration has not yet filled the Chief Counsel position within Advocacy, leaving small businesses without a powerful representative in the regulatory process.

### INSPECTOR GENERAL

Unfortunately, the Office of the Inspector General is the fastest growing division of the SBA. For FY 2010, this office has requested and received 12 new FTEs. For FY 2011, it has requested six new FTEs, equal to the number requested by all other areas and offices of the SBA. Part of this is necessary for this office's increased duty in monitoring and auditing disaster assistance and in monitoring participation and reporting connected to the American Recovery and Reinvestment Act. For FY 2011, this office has requested $19 million in funding, a 10 percent year-over-year increase.

### CONCLUSION

The Administration's FY 2011 budget for the SBA provides an adequate funding baseline for the agency to carry out its core functions. This level of funding will not enable the agency to expand its services, which is necessary during the current period of high unemployment and economic uncertainty. In addition, several proposals could adversely affect small firms by increasing the cost of capital or curtailing services to entrepreneurs. Going forward, the Committee will work to address these shortcomings and craft an SBA budget that meets the needs of small businesses, while ensuring that scarce taxpayer resources are efficiently used. Thank you for your consideration of the Committee's views on this important matter.

With respect,

Nydia M. Velázquez
Chairwoman